Update on Bill / Meeting with Minister

At the time of writing, the Companies (Accounting) Bill 2016 ('the Bill') is scheduled for Report Stage in the Dáil in the week commencing 20 March 2017. As reported in eNews, the President and CEO of Chartered Accountants Ireland met with the Minister for Jobs, Enterprise and Innovation, Mary Mitchell O’Connor in early March. During the meeting, President Liam Lynch welcomed the announcement of the date for the Report Stage, while emphasising the need for swift enactment of the proposed legislation and the costs and complexity for small businesses associated with the on-going delays.

Section 1A of FRS 102 / FRS 105

Chartered Accountants Ireland wishes to remind members that both the small company provisions of section 1A of FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and FRS 105 "The Financial Reporting Standard applicable to the Micro-entities Regime" for micro companies, continue to be unavailable for use by Irish companies until the Bill is enacted and subsequently commenced. Applying the FRS 102 section 1A exemptions would necessitate non-compliance with disclosures currently mandated in the Companies Act 2014 ('the Act') – disclosures are required in Schedules 3 and 4 to the Act and in various sections within Part 6 of the Act. The Bill proposes to introduce Schedules 3A and 4A specifically relating to small companies and groups respectively and Schedule 3B for micro companies and consequently Schedules 3 and 4 would be no longer mandatory for companies or groups qualifying for the small or micro companies regime. The Bill also proposes to include certain small and/or micro company disclosure exemptions within relevant sections of Part 6. However, as previously mentioned until such time as the Bill is enacted and subsequently commenced, the existing Companies Act 2014 disclosure requirements continue to apply to all applicable companies irrespective of size.

Cash flow statement exemption in section 7 of FRS 102

Separately, paragraph 7.18 of section 7 of FRS 102 (introduced into the standard as part of the July 2015 amendments by the FRC) provides for an exemption for small entities from the requirement to present a statement of cash flows. There is, however, a lack of clarity as to whether this exemption is available to small companies in Ireland for accounting periods commencing on or after 1 January 2016 in the absence of the enactment and commencement of the new legislation. The Companies Act 2014 does not require companies to present a statement of cash flows.
flows. Although the position is somewhat uncertain we consider that it would be reasonable for small companies, as defined in section 350 of Companies Act 2014 (i.e. the proposed new size criteria in the Bill do not yet apply), to take the view that they may avail of the cash flow statement exemption in their financial statements, in the interim period until such time as the new legislation is commenced.

Members considering the availability of this exemption, prior to the enactment and commencement of the legislation, should note that an ‘ineligible company’ would not qualify as a small company under the proposals in the Bill (see sections 12 and 15 of the Bill), and therefore would not be able to avail of this exemption.

Small unincorporated entities – application of section 1A

Small unincorporated entities are generally* not subject to the requirements of the Companies Act and are, therefore, generally not restricted in the application of section 1A of FRS 102 due to the absence of the enabling legislation. These entities would also not be restricted in availing of the cash flow statement exemption in section 7. However, prior to applying section 1A and/or the cash flow statement exemption in section 7, such unincorporated entities should ensure this is not contrary to the requirements of other applicable legislation or to their own constitution or rules.

*Partnerships subject to the requirements of the European Communities (Accounts) Regulations 1993 (partnerships in which there is no person who ultimately has unlimited liability for the debts of the business) are subject to Companies Act accounting and disclosure requirements and are, therefore, restricted in a similar manner to companies.

PRACTICE CONSULTING IS RECRUITING

Would you like a role that is flexible and interesting that will bring you into constant engagement with our members? Are you interested in a career move that will:

- allow you to share your knowledge and network with our members in practice;
- provide you with a stepping stone to a wide range of career development opportunities; and
- enhance your knowledge of developments in auditing and financial reporting.

We are recruiting a Practice Consultant. The role includes advising members on compliance, assisting firms with business development, technical support and service innovation. It is Dublin based and involves some travel within Ireland. The position will appeal to professionals who want to be empowered to be creative and innovative, enjoy being part of a supportive team in an environment where work/life balance is important, and in an organisation at the centre of the development of the accountancy profession in Ireland. For more information about this role, please contact Lydia Travers, HR Business Partner, Chartered Accountants Ireland, Chartered Accountants House, 47-49 Pearse Street, Dublin 2 at +353 1 637 7242 or by email to lydia.travers@charteredaccountants.ie by Monday 10th April.

TIMING OF AUDIT MONITORING VISITS

The Professional Standards Department writes:

The new EU Audit Regulation & Directive (ARD) regime was implemented on 17 June 2016. Prior to this date, firms registered with the Institute would normally have received an audit monitoring visit every six years, or every three years if your firm had any Public Interest Entity (PIE) audits.

Following implementation of the ARD, IAASA and the FRC (as the competent authorities for audit oversight in ROI and UK respectively) have advised that the Institute (as a recognised accountancy body (RAB) / recognised supervisory body (RSB)) should now use a risk-based approach when selecting firms for a visit. Firms with no PIE audits will still receive visits from the Institute at least every six years – however, with a risk-based selection approach, your next visit may take place over a shorter interval.

The risk-based approach will be based on various factors, including:

- size, nature and complexity of practice;
- information from internal/external sources; and
- previous regulatory history.

Firms with PIE audits will periodically receive a visit from IAASA’s Audit Inspections Unit (AIU) team or the FRC’s Audit Quality Review (AQR) team to review this work. IAASA and the FRC will notify firms when a visit is due to take place. These firms will also receive monitoring visits from the Institute to review other audit work.

The next visit date for audit firms registered with the Institute will depend on the risk-based selection approach as detailed above. The Institute will continue to notify individual firms when a visit is due to take place.

1. Refer to IAASA website for a definition of a PIE in ROI: http://www.iaasa.ie/FAQs/FRS-1
2. Refer to FRC website for audits (including certain non-PIE audits) which come under the scope of AQR visits: https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-Quality-Review.aspx
TECHNICAL SIGNPOST
The Chartered Accountants Ireland Representation and Technical Policy Department (RTP) writes:

IAASA issues auditing framework for Ireland
We noted in the last issue of Practice Matters the intention of the Irish Auditing and Accounting Supervisory Authority (IAASA), the organisation responsible for the adoption of auditing and ethical standards in Ireland, to issue a temporary suite of standards while considering the appropriate course of action for the long-term auditing framework in Ireland.

IAASA issued the temporary Irish audit framework – International Standards on Auditing (Ireland), International Standard on Quality Control (Ireland) and the Ethical Standard for Auditors (Ireland) – on 31 January 2017. With the exception of ISQC (Ireland) 1, the standards become “effective for the audits of financial statements for periods commencing on or after 17 June 2016, for which opinions are issued on or after 1 February 2017”. Systems of quality control in compliance with ISQC (Ireland) 1 are required to be established by firms in Ireland by 1 February 2017. IAASA has amended the equivalent 2016 FRC standards for use in Ireland and the IAASA standards are available on the IAASA website at the following link: https://www.iaasa.ie/Publications/General-(-)

The Institute’s technical committees are considering the new standards with a view to the institute providing members with assistance on familiarising themselves with the changes.

FRS 103: Insurance Contracts
The Financial Reporting Council (FRC) has recently issued a revised edition of FRS 103 Insurance Contracts and the accompanying Implementation Guidance.

This revised edition incorporates the amendments arising as a result of Solvency II that were issued in May 2016. In addition paragraph A4.2A clarifies a legal requirement regarding a reference to the Solvency II Directive in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), on which the Department for Business, Energy and Industrial Strategy (BEIS) has written to the FRC confirming that there is no requirement to change the accounting basis to one consistent with Solvency II. The revised Standard can be found on the FRC website at the link below and will be available on Chariot in due course.


Construction Workers Pension Scheme – Update on Letters of Compliance
As some members will be aware there have been some issues arising from the procedures issued by the Construction Workers Pensions Scheme (“CWPS”) for applying for a Letter of Compliance from CWPS.

In previous years CWPS agreed that if members find it more suitable to submit the P35 documents to the CWPS rather than an auditors letter, then the CWPS will accept the P35 documents as evidence of compliance for the purpose of issuing Letters of Compliance from CWPS.

As you may have seen in eNews, we have recently received confirmation that the position has not changed for 2017 Letters of Compliance.

RECENT PUBLICATIONS

Small and Expanding Businesses: Getting the Tax Right by Kerri O’Connell, FCA, is a must-read for owners and managers of small and growing businesses and their professional advisors, particularly those that are not tax specialists. An accessible guide to the tax issues typically encountered by small and expanding businesses in Ireland, it examines in detail the tax implications of a variety of business decisions. The book focuses on four main areas: payroll taxes, VAT, income tax on business profits earned by a sole trade or partnership, and corporation tax on business profits earned by companies, as these are the taxes that affect most Irish businesses. Three case studies are also included and developed throughout to illustrate and explain the tax issues with worked examples. This book is available from our online bookstore.

Special offer to members of Chartered Accountants Ireland: €40.50 plus €4.50 P&P (£36.00 plus £3.50 P&P)
The Chairman of the CCAB-I Tax Committee, Paul Dillon, has written to the Chairman of the Revenue Commissioners on the unfair and confusing letters issued to self-assessed taxpayers.

To date, 200,000 letters have issued to self-assessed taxpayers and another 300,000 are expected to issue in the coming weeks. Although the letter has a heading “Reviewing and Correcting Your Tax Returns”, Revenue has indicated that the main purpose of the letter is to notify taxpayers of restrictions to the disclosure regime due to take effect on 1 May 2017 where a taxpayer has an irregularity relating to an offshore matter. According to feedback from our members, the letters have sparked widespread concern among compliant self-assessed taxpayers that their tax returns may be incorrect, which is not the case for the majority of this cohort of taxpayer.

In place of issuing further confusing correspondence to the self-assessed, the CCAB-I calls for a more effective approach such as an information campaign for all taxpayers, self-assessed and otherwise, in relation to disclosures after 1 May 2017.

Amendments to Code of Practice for Revenue Audits

Revenue recently published an updated Code of Practice for Revenue Audits and other Compliance Interventions. The updated Code takes effect from 22 February 2017. Restrictions to the disclosure regime on foot of Finance Act 2016 are now reflected in the Code. Other important amendments are as follows:

Section 3.7.1: Amendments to liabilities not within the scope of the Revenue Audit. The changes here mean that a taxpayer can make an unprompted qualifying disclosure in relation to matters outside of the scope of an audit where the audit is in progress and the auditor does not formally extend the scope of the audit.

Section 3.13: Period to prepare a qualifying disclosure. Revenue stated that the intention of this amendment is to restrict or deter claims for an extension of the 60 day period to prepare a qualifying disclosure.

1.9 Electronic support tools. The amendment to this section suggests that e-tools will be used in interventions outside of formal audits.

3.10 Exclusion – Disclosure not regarded as a Qualifying Disclosure. The restrictions to qualifying disclosures introduced by Finance Act 2016 are reflected in this section. Taxpayers have until 30 April 2017 to make a disclosure for matters relating to a foreign source tax irregularity before these penal restrictions take effect. The FAQs on Revenue’s website provide greater detail on the various issues which may arise for a taxpayer who is working towards making a disclosure on or before 30 April.

Other changes include the introduction of references to the Union Customs Code, clarification on legislative references to the Stamp Duty Acts and a section setting out Revenue’s data retention policy. Chartered Accountants Ireland through the CCAB-I make representation to Revenue through the Tax Administration Liaison Committee (TALC) process. We ask that any issues with the amendments to the Code be brought to our attention (contact norah.collender@charteredaccountants.ie) for discussion with Revenue.

UK Spring Budget 2017 – bland but bullish?

Spring is in the air. But was there a spring in Chancellor Hammond’s step when he delivered his first (and last!) Spring Budget on 8 March? With the triggering of Article 50 imminent, many expected further measures showing that Britain is “open for business”. These, and the word Brexit, were absent from his speech.

The Chancellor’s approach seemed to be “steady as she goes” on Budget day. There were perhaps three tax headline items - increased national insurance (“NIC”) for the self-employed, a concession on the Making Tax Digital (“MTD”) timetable and a reduction in the dividend allowance. But just a week later, the Chancellor did a u-turn on his Class 4 NIC proposal, confirming the changes will not go ahead. The increase in Class 4 NIC alone was expected to raise over £2 billion in tax revenue by 2022. How will the Chancellor now fill this gap?

MTD is to be delayed one year (until April 2019) for businesses below the VAT registration threshold - not entirely surprising. This deferral is welcomed as it allows more time for the software to be tested and for businesses to prepare for the change. But does this go far enough? In these uncertain times, businesses need certainty.
A final announcement on the complete exemption threshold is needed soonest - this is currently set at £10,000.

We’d like to hear your views (contact leontia.doran@charteredaccountants.ie) on MTD and how it will affect your daily work. (Please see the detailed article below.)

The £5,000 dividend allowance introduced just last April will fall to £2,000 from April 2018. This measure was badged as another way of reducing the tax differential between the employed and self-employed and those working through a company. And finally, with under a year to the proposed commencement of the NI corporation tax regime on 1 April 2018, the reforms necessary to put the NI Executive’s finances on the sustainable footing required to complete corporation tax devolution should not be forgotten.

Finance Bill 2017 is expected to confirm the announcement a few months ago that the Corporation Tax (Northern Ireland) Act 2015 is to be amended so that SMEs who do not meet the SME test in the legislation will be able to avail of the regime for large companies if they have a Northern Ireland regional establishment.

Download Chartered Accountants Ireland’s briefing note on the legislation now. Note that this briefing note will be amended in due course once the detail of the proposed changes for SMEs is known and has been enacted.

In the meantime, the Coleraine Enterprise Zone forges ahead. The pilot scheme for the new Coleraine enterprise zone was formally designated by HM Treasury in August 2016. The zone will offer 100% enhanced capital allowances for qualifying expenditure in the first year.

"Making Tax Digital" project update

The HMRC “Making Tax Digital” project will oblige most businesses (including companies, landlords and the self-employed) to report to HMRC at least four times a year, instead of just once a year on their annual tax return. The proposals will see the biggest changes to the UK tax system since the introduction of self-assessment in the late 1990s.

On 31 January, HMRC published the long awaited responses to the Making Tax Digital consultations. Calling this the “Digital tax revolution” speaks volumes. The consultation responses came on the busiest day of the tax year for practitioners and most disappointingly the responses confirm that Making Tax Digital for Business will commence, as planned, just over a year away in April 2018.

Key decisions from the consultation process are:-

• businesses will be able to continue to use spreadsheets for record keeping, but they must ensure that their spreadsheet meets the necessary requirements of MTD for business (“MTDfB”). This is likely to involve combining the spreadsheet with software;

• businesses eligible for three line accounts will be able to submit a quarterly update with only three lines of data (income, expenses and profit);

• free software will be available to businesses with the most straightforward affairs – we await detail of who exactly will be entitled to this and what format it will take;

• the requirement to keep digital records does not mean that you have to make and store invoices and receipts digitally;

• activity at the end of the year must be concluded and sent either by ten months after the last day of the period of account or 31 January, whichever of these is soonest;

• charities (but not their trading subsidiaries) will not need to keep digital records; and

• for partnerships with a turnover above £10 million, MTDfB is deferred until 2020 due to the complexity of their tax affairs; and

• corporates will be impacted from 1 April 2020 when MTD for companies commences

Some of the relaxations announced are positive and welcomed – but do they go far enough?

The MTD consultations also specifically explored the appropriate level of the initial exemption and deferral for the self-employed, landlords and businesses that will be in scope. Given the range of views expressed on this matter, the government decided to take more time to consider these issues alongside the fiscal impacts. Final decisions will be made before legislation is laid later this year.

Following on from the publication of the consultation outcomes in January, the Spring Budget subsequently announced that MTD is delayed one year (until April 2019) for businesses with turnover below the VAT registration threshold.

So what does this all mean? HMRC have basically announced that it is going ahead with MTD as planned, though there are some concessions. Many businesses will
therefore be expected to switch to a fully operational digital system from 1 April 2018. But the proposals are founded on software being delivered in time and details are scant in relation to this area.

The fact that the government is reflecting carefully on the exemption threshold for some businesses is welcome. But businesses need certainty and at the minute this particular decision looks to be some way off.

HMRC will be running a full year pilot starting on 1 April 2017 – will this be enough time to iron out any “teething problems”? Let’s not forget that when MTD become mandatory from April 2018, the first full cycle of reporting under the pilot scheme, to include end of year activity, won’t have concluded.

There can be no doubt that many taxpayers affected by MTD will not yet have taken any action due to a lack of detail. Unfortunately, it is questionable whether the recent announcements give enough certainty for taxpayers to start planning now, particularly given the uncertainty over the exemption threshold.

What is not in doubt however, is the scale of MTD. At its heart is the software – taxpayers and agents alike will soon need to start considering what software they will require, which suits them best not to mention its cost, installation and training.

In 2016, this Institute engaged with members on the consultation proposals and responded to the consultations on your behalf. We’re currently looking in more detail at the consultation responses and the way forward. The Institute will continue to represent members as these proposals develop.

We’re also conscience that members will require briefing on the project as it develops; the institute will be producing a factsheet on MTD over the next few months.

UPCOMING CPD EVENTS

Don’t Miss the Annual Conference Early Bird Offer - until 7 April

The Annual Conference is taking place in the Radisson Hotel, Galway May 12. This year’s conference ‘Disruption’ features a list of high profile business, sports and profession specific speakers. Notably sporting legends Annalise Murphy and Brian Cody, motivational speakers Kevin Maughan CEO of UrbanVolt, journalist and entrepreneur Mark Little. Practice Consulting will speak at the Practice Stream under the heading “Sharp practice or cutting edge” concentrating on case studies on practice turnaround - opportunities, pitfalls and solutions for 2017. Brian Keegan, Director of Public Policy and Taxation will present under the title “Donald, Theresa and Pascal walk into a tax office”. There is much more – for full details see the Conference brochure on our website. This is a date for your diary not to be missed!

CPD courses in April

4 April - Corporate Governance on boards of directors
4 April - Forming an opinion and reporting on financial statements
5 April - Corporate finance for SME companies
5 April - Building and managing high performance teams
6 April - Personality Types: Understanding Yourself & Others at Work
6 April - FRS 102-105 Update
6 April - Strategies to deal with change in your organisation

Please see more April courses at www.charteredaccountants.ie/CPD/Courses/Courses/

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